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Smart beta strategies displace active

Sydney, 23 August 2018 – The majority (68%) of financial professionals are using smart beta strategies to replace actively managed funds, according to VanEck's third annual smart beta survey, which found that usage of smart beta strategies has significantly increased over the last two years.

Most financial professionals (57%) are now using smart beta strategies in client's portfolios according to the survey, compared to only a third (37%) in 2016. The key motivations to start using a smart beta strategy is to achieve outperformance (64%), achieve better risk adjusted returns (55%), reduce volatility (50%) and reduce costs (46%).

Arian Neiron, VanEck's Managing Director and Head of Asia Pacific, said, "Smart beta is giving active management a run for its money. For the first time since the survey launched in 2016, the majority of respondents are using smart beta strategies in their portfolios and they are using them as a replacement for active management strategies.

"Investors are now realising that active funds often lag their benchmark so they are shifting to smart beta strategies as more cost effective, transparent and effective ways to achieve their investment and performance objectives," he said.

The survey found 88% of respondents believe smart beta strategies will outperform (53%) or perform in line (35%) with active strategies compared to 12% who think smart beta strategies will marginally underperform. No respondents think smart beta strategies will significantly underperform active funds.

The most popular smart beta strategies used by financial professionals are equal or alternative weighted strategies (68%), single factor quality strategies (48%), multi-factor combinations (33%) and dividend, income or yield weighted strategies (26%). Most financial professionals are using these smart beta strategies to access Australian equities and international equities, followed by Australian fixed income.

The survey found that just under half or 41% of respondents are currently invested in or considering an ESG strategy. The top motivations for investing or considering an ESG strategy are environmental impact, client demand and social impact.

Mr Neiron said, "While there is a strong trend towards using smart beta strategies for Australian equity and international equity exposure, we expect users to diversify into other sectors and asset classes as the use and variety of smart beta strategies continues to grow."

Satisfaction rates among smart beta users is high according to the survey. Seventy-four percent of respondents using smart beta strategies are extremely or very satisfied with their smart beta investments, an increase from 68% in 2016. Sixty-six percent of respondents now agree that smart beta represents good value for money, compared to 54% in 2016.

Awareness of smart beta strategies has increased considerably since the survey began, with 93% of respondents familiar with smart beta, an increase from 81% in 2016. The survey found 84% of financial professionals are using ETFs.

"It's not surprising that awareness of smart beta investing has increased, particularly as the number of smart beta ETFs on ASX has increased over the past two years. Now, one in three ETFs listed on ASX are smart beta strategies. ETFs are really at the forefront of smart beta investing," Mr Neiron said. "Smart beta ETFs combine the best aspects of active and passive management by tracking indices that deliver a chosen investment outcome, while retaining the low cost, transparency and liquidity of passive investing. Smart beta ETF adoption rates have reached record highs globally with Australian investors key players," Mr Neiron said.

At the end of June 2018, there were 1,224 smart beta ETFs/ETPs globally with total assets of US$635 billion from 147 providers on 39 exchanges in 31 countries. Year-to-date net inflows into global smart beta ETFs/ETPs was US$29.9 billion[1].

ENDS

About VanEck Smart Beta Survey
This is the third annual VanEck Smart Beta Survey conducted in July 2018. The first survey was launched in July 2016. The survey is based on the responses of 153 Australian-based financial professionals working in an advisory capacity in Australia. The majority of respondents in this survey work for independent financial services firms (65%), larger organisations owned by a bank or wealth manager (15%), broking firms (14%) and other (5%). The majority of survey respondents are a financial planner (40%); CEO, managing director, owner or partner (23%); broker, trader or implementation manager (18%); or portfolio manager, researcher, analyst (9%).

About VanEck
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VanEck is one of the world's largest exchange traded product issuers. In Australia our range of ETFs (exchange traded funds) offer investors intelligently designed investment strategies that take advantage of targeted market opportunities. With offices in key financial centres and regions including New York, Sydney, Shanghai, Frankfurt, Madrid and Zurich, VanEck offers investors broad investment reach with deep experience.

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